



State of Tennessee  
Division of Property Assessments  
Multi-Jurisdiction or Large Company  
Field Audit Program

- D. Selection from companies with records maintained locally with assets within a certain dollar range.
  - 1. Obtain a listing of all local accounts.
  - 2. Review list and select all accounts which fall within the range noted.
  - 3. Document all selection procedures and include them in the working papers.
- E. Selection of companies with records maintained outside of the jurisdiction with assets within a certain dollar range.
  - 1. Obtain a listing of all appropriate accounts.
  - 2. Review list and select all accounts which fall within the range noted.
  - 3. Document all selection procedures and include them in the working papers.
- F. Selection based upon the results of desk audits.
  - 1. Review file of desk audits in which problems were noted.
  - 2. Select for audit any accounts which cannot be resolved in the office.
  - 3. Document all selection procedures and include them in the working papers.
- G. Selection of multi - jurisdictional accounts.
  - 1. Obtain a listing of accounts located in more than one jurisdiction.
  - 2. Based upon some criteria, make a selection of accounts to be audited.
  - 3. Contact other jurisdictions involved and make necessary arrangements to schedule the audit and avoid any unnecessary duplications.
  - 4. Document all selection procedures and include them in the working papers.

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## II. PREPARING FOR THE AUDIT

A. The initial telephone contact.

1. Review departmental records for the companies selected for audit and record telephone numbers and the names of contact persons.
2. Prepare a preliminary schedule of audits based upon the most cost effective approach.
3. Telephone the appropriate companies and inform them of the audit, confirm the date and time.
4. Adjust the preliminary schedule for any changes.

B. The contact letter.

1. Prepare the standard contact letter, inserting the company name, address, and the date and time of the audit.
2. Mail the original letter and create an audit file for the duplicate

### III. HOUSE TESTING

### A. Background testing

1. Review industry audit guides, similar companies in the industry and other related testing to become aware of the company's operations.

### B. Internal testing

1. Obtain the current and previous year's personal property schedule for the company being audited.
2. Compare asset costs by group and year acquired between the two schedules.
3. Make note of any major changes in costs between years for follow up during field testing.
4. Note asset categories with large decreases for follow up during field testing. Determine through review of records and discussions with company personnel if the assets have been sold, scrapped or otherwise disposed of. Make note of any unreconciled differences.

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### C. Lease information

1. Compare lease information submitted by the company in Part III of the schedule with cost information submitted by the lessor.
2. List differences to be resolved during the audit.
3. Based upon your knowledge of the industry, make note of assets usually leased but not reported and follow up during the audit.

#### IV. PHYSICAL INSPECTION

- A. Arrange with the appropriate company personnel to take a tour of the facility.
- B. Review the physical layout of the facility, make note of questionable items which may be classified as real estate.
- C. Examine raw material quantities on hand and compare with amount reported on the personal property schedule.
  1. List any unreasonable differences for follow up.
- D. Inspect supply and parts inventory on hand and determine if inventory balances are maintained.
- E. Select a number of assets located in the plant and list. Include in this selection new as well as old assets. These items will be agreed to fixed asset records when field testing begins to determine if all assets are being reported. Items not reported should be resolved.

## V. DETAIL TESTING

Upon arriving at the audit site, ascertain that the company has made available all documentation requested in your contact letter and begin detail testing.

1. List all personal property account numbers in groups as they would appear on the personal property schedule.
2. Thoroughly review chart of accounts and list in the appropriate group any other asset, liability or expense account which may represent items of tangible value.
3. If no supply inventory is maintained, list all expense account numbers which represent the use of supplies.

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B. Trial balance - general ledger at January 1

1. Determine if company is on a calendar or fiscal year. If fiscal, determine year end date and the number of months included in the trial balance.
2. Record the year to date balances for all accounts listed in V.A.1. - V.A.3.
3. List any other accounts and balances noted in the appropriate groups.
4. Total the accounts listed in B.2. - B.3. above. These totals represent the personal property asset balances per book.
5. Compare the totals in B.4. to the amounts reported on the personal property schedule and list any differences.
6. Total the accounts listed in A.3. above.
7. Divide the total in B.6. by the number of months expired in the period. This total represents the estimated supply inventory. Compare this amount to the amount reported in group 8 of the personal property schedule and list any differences.

### C. Fixed asset detail listing

1. Foot schedule to agree to recorded totals.
2. Agree totals to trial balance - general ledger balances and to inclusion in audited financial statements. Note any unresolved differences.
3. Accumulate totals by category and year acquired and agree to the personal property schedule. Record any unresolved differences.
4. Review building, leasehold improvements and all other real estate sections of the fixed asset listing and record any items which appear to be personal property. List unresolved differences.
5. Agree all items recorded in IV.E. to the fixed asset listing. Record any unresolved differences.
6. List any assets or group of assets on the fixed asset list as personal property, not reported on the personal property schedule.
7. Record any assets on the fixed asset listing at zero value or at a value which appears insufficient.

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#### D. Raw material listing

1. Foot schedules to agree to recorded totals.
2. Agree totals to general ledger and inclusion in audited financial statements.
3. Determine if inventory is valued at LIFO, FIFO or some other standard cost basis. If FIFO is not used, reserve and variance accounts will have to be used to determine FIFO valuation.
4. Determine if any inventory is maintained at any outside locations and record any difference not reported on the personal property schedule.
5. Agree totals to raw materials portion of group 8 of the personal property; schedule. Record any unresolved differences.

#### E. Rent, repairs and maintenance accounts

1. Review chart of accounts to determine accounts which should be tested.
2. Review current year's general ledger activity and list some major disbursements.
3. Determine if expenditures represent maintenance items or capital additions.
4. Record any capitalizable items as differences.

F. Construction in progress (cip) and capitalized interest

1. Review chart of accounts and general ledger to determine if cip and capitalized interest balances are maintained.
2. Obtain detailed schedules and foot to agree.
3. Determine if any amounts represent real estate and exclude from total.
4. Determine physical location of items at January 1, and record as appropriate.
5. Trace applicable cip totals to inclusion in group 8 total on the personal property schedule.
6. Check calculation of capitalized interest and agree to inclusion in group 8 total.

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### G. Current year acquisitions

1. From purchases and cash disbursements journals, randomly select several invoices representing fixed asset purchases.
2. Obtain invoices and supporting documents and check mathematical accuracy.
3. Agree totals including taxes, freight and installation to fixed asset records.
4. Determine that items received before January 1, but paid for later are properly included.
5. Agree totals to raw materials portion of group 8 of the personal property schedule. Record any unresolved differences.

H. Latest year's franchise tax return.

1. The franchise tax return will be needed when fixed asset balances cannot be obtained from the accounting records or the necessary records are not available. In which case this return is to be used to compare to the personal property schedule. Note any unresolved differences.

## VI. COMPLETION OF THE AUDIT

- A. Review audit program, complete and reference all steps as appropriate.
- B. Discuss unresolved differences with appropriate company personnel.
- C. Enter all differences by group and year acquired on the lotus spreadsheet.
- D. Determine the amount of additional tax or refund for discussion with supervisor.
- E. Number, sign and date all audit schedules.
- F. Prepare time summary of hours worked on the audit and a memo describing any problems encountered.
- G. Submit completed audit to supervisor for review.

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VII. EXIT CONFERENCES AND FINAL ADJUSTMENTS

- A. Mail audit report and a copy of the working papers to the company along with the standard letter requesting written notification if an exit conference is desired.
- B. If an exit conference is desired, determine the date and if company personnel will attend or if a telephone conference will be held.
- C. Review all additional information provided by the company and make necessary adjustments.
- D. Have all parties sign the attendance sheet.
- E. Incorporate all adjustments into the audit report and workpapers and provide a copy to the company.

Completed By	
Initials	Date